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C O N F I D E N T I A L SECTION 01 OF 03 WARSAW 000250

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TAGS: [EFIN](#) [ECON](#) [PREL](#) [PL](#)
SUBJECT: POLAND: AMBASSADOR AND MIN FINANCE DISCUSS FATF,
VOTING RIGHTS, SWFS

REF: STATE 3407

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Classified By: AMB. VICTOR ASHE, REASONS 1.4 B AND D

11. (C) Summary and Action Request. In an introductory courtesy call on new Minister of Finance Jacek Rostowski on February 14, Rostowski told Ambassador that Poland's Financial Action Task Force (FATF) membership is an important GOP priority. He explained that the Ministry is currently amending VAT legislation and considering implementing VAT Grouping. Poland is considering the U.S. request to update the U.S.-Poland Tax Treaty, but does not have similar wording in any other treaty and wants to ensure it does not set an unbearable precedent. Rostowski asked for USG advice on a Russian proposal to reform voting rights at the World Bank and IMF. Rostowski also briefed Ambassador on recent EU discussions on limiting the influence of Sovereign Wealth Funds, requesting the US point of view. Post would appreciate any information we can share with the GOP on USG positions on redistribution of voting rights in the IMF and World Bank. Bio of Rostowski at para 9. End Summary.

VAT Grouping

12. (C) The Ambassador asked Minister Rostowski to take another look at the issue of implementing VAT Grouping in Poland, arguing that US firms believe it will lead to increased financial services jobs in Poland. The Minister explained that the Ministry is in the process of reviewing proposed changes to VAT legislation. VAT Grouping is being considered, although not from the point of view of job creation. Rostowski asked for information on our estimates of job creation, which the Ambassador promised to provide. The Ministry will discuss changes to the legislation on February 15. However, if the issue is not included in the present amendments the embassy should be patient. The Ministry expects to implement two to three amendments to the VAT law in 2008, most required by changes to EU legislation.

U.S.-Poland Bilateral Tax Treaty

13. (C) Ambassador noted that the U.S. is very interested in modernizing the U.S.-Poland Tax Treaty to ensure third-country nationals can not abuse a loophole to avoid taxes. Minister Rostowski replied that the Ministry is studying the U.S. proposal and understands the USG position. The impact on Polish companies must be analyzed by the Ministry. The U.S. request to change the withholding provision is new to the GOP and not included in any other bilateral treaties. The GOP wants to ensure it does not set a precedent it can not live with in other bilateral treaties. The Ministry should have a position developed by the next meeting with U.S. Department of Treasury in April.

Financial Action Task Force - FATF

14. (C) Minister Rostowski told the Ambassador that Poland is desperate to join FATF. Poland now has the largest Eastern border in the EU. It does not make sense that Poland is not a member and involved in discussions that affect money laundering and financial flows across its border. Poland's participation could also be important for how Poland and the EU deal with the growing influence of Sovereign Wealth Funds. The Minister asked that the USG support Poland's efforts to join FATF.

Reform of International Financial Institutions

15. (C) The Government of Russia (GOR) recently approached Poland to discuss a proposal for recasting voting rights in the International Monetary Fund (IMF) and World Bank (WB), explained Rostowski. The GOR proposed that the GOP support its plan to recalibrate voting rights within the IMF and World Bank, arguing that otherwise they would become dead

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institutions. The GOR noted that it is important for the BRICS to have more say and proposed strengthening their position at the expense of countries like the Netherlands, Switzerland, and Belgium. Rostowski stated that there is some sense to the Russian proposal but the GOP questions what the GOR is up to, believing that it's not really about the Netherlands and Belgium. Instead, they suspect the Russian proposal would give Ukraine less votes. He asked that the USG share its thoughts on voting reforms and insight on the GOR proposal.

Sovereign Wealth Funds

16. (C) Rostowski told Ambassador that Sovereign Wealth Funds (SWFs) were a major topic at the ECOFIN meeting February 11 and 12. The United Kingdom told him that HMG is looking for an acceptable and suitable form for a so-called "Gazprom clause" to limit the influence of SWFs. The debate in the ECOFIN surprised Rostowski, as the French and Germans stated they were concerned about the growth and use of SWFs as potentially causing macroeconomic instability because of their size and state ownership. Both would like a code of conduct for SWFs. Other countries are reportedly less concerned. In the opposite camp are the UK and Scandinavians who are concerned about whether and how firms acting in the energy sector are using their monopolistic supply position. He said the UK believes SWFs are always reasonable, long-term stable investors. The Dutch are in between, believing many SWFs are new, don't know how to behave and are becoming more active than in the past.

17. (C) After meeting with both sides, Rostowski said that he presented a compromise proposal to develop a code of conduct or language that would examine activities of SWFs or state-owned enterprises or nominally private companies from

countries where the line between public and private ownership is unclear. If the entity is using its large resources to gain a political advantage or act in a way that is clearly not commercial behavior its activities would be scrutinized. The code of conduct could block takeovers or purchases, especially in the energy transmission, production, and distribution sectors by companies or entities that have a clear track record of non-commercial behavior. Rostowski said that he was surprised that his proposal was taken up enthusiastically by all parties, including the Commission, and will be negotiated in parallel in the EU and IMF. He added that HMG is very keen to deal with SWFs at the world level in either the IMF or OECD. Poland wants to deal with the issue in the EU as well as multilateral institutions as it feels it should be discussed in multiple venues. Rostowski would appreciate information on how the USG will view the approach of potentially sanctioning non-commercial behavior of SWF's or other enterprises. The Ambassador promised to provide him relevant information. (Note: Post will provide refTel text but would appreciate any other relevant information on SWF's that could assist the GOP. End Note)

18. (C) Comment: Unlike meetings at the Ministry of Finance under the previous government, Minister Rostowski and his team were well briefed and interested in engaging the USG on global issues affecting not only the U.S. and Poland. Post would appreciate information it can pass to the Ministry on the formal USG positions on voting rights in the World Bank and IMF and regulation of Sovereign Wealth Funds. Across party lines, all Poles believe it is critical to ensure its energy security, and many Poles fear that the government of Russia or Gazprom will use its financial resources to undermine Poland's energy security and independence. Post believes that Department of Treasury should consider re-engaging with Polish officials on global issues. The new GOP is interested in re-engaging the EU and the U.S. and could prove to be an important ally in multi-lateral fora. End Comment.

Biographical Data - Jacek Rostowski

19. (U) Jacek Rostowski was appointed Minister of Finance in Donald Tusk's Government on November 16, 2007. A professor

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of economics, since 1995 he has been Dean of the Economics Department and lecturer at the Central European University in Budapest. Since 2004 he has been an advisor to the management board of Pekao SA Bank.

From 2002 to 2004 Rostowski served as an advisor to Leszek Balcerowicz, the Governor of the National Bank of Poland. From 1997 to 2001, he was head of the Macroeconomic Policy Council at the Ministry of Finance. He was an employee of the Center for Economic Performance of the London School of Economics from 1992 to 1995. He was also a lecturer from 1988 to 1995 at the School of Slavonic and East European Studies at the University of London. From 1989 to 1991 Rostowski was an advisor to the Deputy Prime Minister and Minister of Finance Leszek Balcerowicz.

Rostowski also advised the Russian Federation government on macroeconomic policy issues. He is the co-founder of the think tank Center for Economic and Social Analyses (CASE) in Warsaw, and a member of its Council. He is an author of a number of publications on European Union enlargement, monetary policy, exchange rate policy and transformation of post-communist economies.

Rostowski proposed unilateral Euro adoption in 2000. Post expects that he will push for fast Euro adoption in his current position as Minister.

Rostowski is a graduate of the London School of Economics

(1975) and the University of London (1973). Born in London in 1951, he cultivates the traditions of the prewar intelligentsia. In the 1980s he and his wife, Wanda, were involved in the West,s operation to support the underground Solidarity movement. After 1989 he began a close collaboration with Professor Balcerowicz.

Minister Rostowski is married, with two children. He is passionate about food and especially adores French cuisine. He is fluent in English, French, German, and Russian.
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